THE EXTENT AND THE SIGNIFICANCE OF THE UNEARNED INCREMENT

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It is important at the very threshold of this discussion to make clear that, in a competitive economic order, private gain has no necessary reference to social service, and private capital no necessary relation to social productivity. Here, indeed, as often elsewhere in doctrinal analysis and in practical applications, right thinking upon the capital concept is fundamental to all the superstructure of theory and of practice.

The truth is that the essential nature of capital is not to be found in its significance as a factor of production in any technological or mechanical or industrial sense. It is not a category of machines and tools and appliances. Instrumental goods are capital truly, because, by virtue of their industrial function, they are gain-rendering to their owner—but they are capital solely by this title of gainfulness. That is to say, capital in the competitive business sense includes capital goods—instrumental goods or raw materials for production—but includes indefinitely more. These items of industrial equipment, these industrial appliances, are capital by the sole measure of their rendering a price gain. Price gain, pecuniary income, furnishes the test of capital quality and the degree and measure of it. Weight-and-tale productivity has no significance in the case excepting as an intermediate step to pecuniary return. And, in truth, even the most rigid adherents of the doctrine which confines capital to intermediate production goods, include the ice in the ice house waiting for summer, cider aging to vinegar, wine acquiring bouquet and flavor: the price significance is growing with passing time. So, somehow, the merchant's stock of goods is commonly admitted to be capital, although not as a factor of production in any industrial or technological sense, but seemingly only as gain rendering to the owner. Capital is merely property controlling gain in time.

The truth is that the concept of that sort of productivity which underlies not merely interest, but wages and rent and profit, requires radical reconstruction. The term *productivity* is, in truth, unfortunate for the purpose. In a régime of competitive activity for private gain, private gainfulness is the only meaning that the term productivity can possibly bear—unless, indeed, the

thought passes over from an objective study of the phenomena to ethical appraisals. But surely the science of economics is not to be reconstructed with every change of opinion with regard to the social worth of an institution, or with regard to the ethical or dietetic merit of certain lines of consumption. There is not one economic doctrine for the German and a second for the prohibitionist, or one for the Yankee pie eater and another for the Mediterranean wine drinker. Economic theory does not follow styles in bonnets, or canons of artistic merit, or directions of religious enthusiasm.

That private acquisition rather than social service is at the heart of the productivity concept is readily made clear. For precisely as economic utility has no reference to piety or health or welfare but only to desire, so wealth includes all permanent products that, attracting desire, take on price. Cigarettes, whiskey, Peruna, hop bitters, mince pies, cavair, ribbons, watch fobs, and corsets, all are wealth. They are marketable at a price. It does not matter that each or all of these lines of consumption may be either extravagant or immoral or indigestible.

It therefore follows that all the agents and instruments employed in furnishing the things that bear a price are productive—teachers, preachers, actors, corset makers, corset factories, poison factories, prostitutes.

And not only is it true that the test of economic productivity is neither in the materiality of the product nor in the commendability of the contribution to the general store of salable goods; it is also true that there need be no product at all from the point of view of any social accountancy. Burglars' jimmies, sandbags, roulette tables, counterfeiting outfits, all are capital—not however in any technological aspect as mere tools or appliances or implements, but ultimately solely as an individual holding of property for individual gain.

And if burglars' tools are productive, so also is the burglar or highway robber. If the lawyer who wins cases that should not be won is a producer earning his wage, so likewise is the beggar upon the corner an earner of his pittance. It is, indeed, not rare that an entrepreneur hires beggars or pickpockets at a wage. Their wage is the proof of their productivity. Similarly, also, with the relation of the madam to the inmates of the dive. Productive in the same sense and by the same test is the writing of advertising misinformation, or the purveying of Town Topics

scandals and libels, or the various other forms of blackmail. The average political speaker for hire, the lobbyist, the pimp, and the procurer belong by the same right in the same classification. Each earns his wage according to his kind, in the sole and ultimate sense that he gets it. It does not matter for the purpose whether the wage is received for good practice or for malpractice, for making cloth or for making shoddy, for adulteration or for honest goods, for canned nutriment or for canned poison. That, socially viewed, certain gain-acquiring activities may be denounced as parasitic or as something worse, is not to the point. Parasitism is not a competitive category.

Acceptance of the fact that neither labor nor capital need eventuate either in a material result or in a good result, but only in a price-bearing result, must greatly modify the capital concept and greatly extend the capital category. Slaves rank as capital where slavery exists. To reduce to slavery half of a population might in itself amount to a doubling of the aggregate of wealth. Nothing follows as to the result upon aggregate welfare. Weal and wealth have no necessary interdependence.

The growth of capital by growth of liens against men is widely illustrated in actual business. An increase in public war debts or an increase in private indebtedness as mere claims *in personam* is a growth of capital. A property right is merely a right of individual enjoyment and, therefore, a right of exclusion of others. It results that patent rights and franchises and monopolies are all capital, since they represent the right to collect revenue from others. Nor, again, is it to the purpose to inquire whether the right is or is not predation. Whatever wealth serves the acquisitive end is capital. Police permits to rob passers-by after midnight are capital. Legislative authority to rob importers both early and late is capital. Royal patents for tax-farming the peasantry are capital.

I would avoid any over-call upon your time in presenting these doctrinal axioms: I have elsewhere too much sinned in this regard. I desire at present merely to point out the application of this doctrine to our actual American society. A great part of the 110 billions of American wealth is made up of one form or another of capitalized privilege or of capitalized predation. If, indeed, our computations include all forms and manifestations of private claim and of private property in that to which no indi-

vidual can make good his private right of enjoyment, it is probably not going too far to assert that two thirds of the durable property bases of income in the country are nothing else than this capitalization of privilege or capitalization of predation. The market value of these non-social forms of capital is merely the present worth of the right to exact tribute from one's fellows or to plunder one's fellows. I put this fraction at two thirds admittedly as mere estimate. I claim no adequate basis in statistics and no authority as statistician—God forfend. Nor should I have great confidence in any statistical pronouncement on the question. But I think I can make the statement reasonably credible.

Note the facts as reported by the 1904 census: Out of the 107 billions of material wealth, 18½ billions are reported as current products—clothing, personal ornaments, furniture, carriages. Of the remaining 89 billions, 2 billions are coin and bullion. Of the remaining 87 billions, 62 billions are land and improvements and 16 billions are accounted for as public utility corporations; 8 billions remain for live stock and industrial equipment. Our problem has, then, mostly to do with these 87 billions of social equipment—income-earning wealth in the ordinary sense. We find this total to divide into:

8 billions of non-transportation equipment
16 billions of public utility wealth
62 billions of land and improvements

How much, then, of this 87 billions of wealth is the capitalized bounty of nature or the capitalized expectation of unearned dividends?

Recalling that mines and water powers are included within the land category, that the ground values in cities like New York and Chicago are twice the improvement values, that four fifths of the farm values are land values, that seven twelfths of the real estate values for a group of states not including New York, Massachusetts, Illinois, and Pennsylvania are ground values, that the last tax report for Illinois gives the town and city lots as assessed at twenty-four times the farm values—it is probably conservative to say that over two thirds of the real estate wealth of the country is in ground values: here are 41 billions of unearned increment.

Estimating, also, the value of rights of way and user, and of terminals for the railroads and tramways, express companies,

telephone, electric light, and telegraph companies, it is probably not wide of the truth to say that one half of the 18 billion value of public service corporations represents merely social values. If there is overstatement here, it surely does not offset the liberality in the division of real estate values.

Here, then, are approximately 50 billions of unearned values out of a total of 87 billions. Five ninths of the durable wealth reported by the census is made up of privately appropriated social wealth.

The difficulty is, however, that the census returns have been constructed upon the basis of a viciously bad concept of capital. In the main, the totals represent a valuation of material tangible items of goods or of equipment. But as a question not of social wealth, but of the aggregate of private competitive wealth, the interrelations of human beings must be considered. If half the population of America became slaves, note again that 50 billions of wealth would forthwith be added to the wealth aggregate. In the mere item of public debts we have approximately 3 billions to be computed as private wealth against which no debit can be charged in the aggregate appraisal. These debts are merely the present worth of the private rights of some men to collect future taxes out of other men. Patents and franchises and privileges are all fundamentally of this same sort. In a general way, the common stocks of the later corporations are nothing more or less than the present worth of putative future dividends resting upon no basis of original investment. The Steel Corporation with its billion dollars of market value rests upon original properties of from 200 to 300 millions. The average earnings of 120 millions would support a valuation of 3 billions if only it were certain that this robbery can have no end. The dividend-earning capacity of the Booth Company supports a capitalization double that of its material assets. Sears, Roebuck and Company incorporated approximately 9 millions of tangible assets into the 9 millions of preferred stock and 30 millions of common stock: and this common stock is now selling at 180—sixty-three millions of private wealth against 10 millions of social wealth. Immunity from competition through protective tariffs, through combination, through franchises, and through patented processes, explains a vast total of private wealth of which the census takes practically no account. Even

the item of good will—a property claim not necessarily predatory in its basis—means commonly nothing more than the special ability of some particular corporation, for example, Sears, Roebuck and Company, to avoid the wastes of our prevailing system of retail merchandising. I conjecture—or guess—the aggregate private wealth of the country to be 150 billions of dollars, and I hazard the estimate that the 20 billions of real estate improvements, 10 billions of public utilities property, 20 billions of tangible personal property and of goods for consumption—a total of 50 billions—more than represent the earned wealth of the country as against a total private wealth three times as great.

The purpose here is not primarily to show how tragically inadequate is the single tax program interpreted as applying solely to unearned increments of land. So far at least as the single-taxers go, they emphasize a real evil. Nor is it a valid objection to their proposed remedy that there are other iniquities even more seriously demanding attention. Nor have I time at present to point out how unworkable is the single tax program, so far as it intends an appropriation of unearned increment through the machinery of the ad valorem tax. Nor shall I stop to prove that the application of the single tax principle to fertility rents is big with social danger. It is not even possible here to demonstrate the diminishing significance of these agricultural rents as over against the stupendously increasing importance of urban rents. I must content myself with noting that if improving transportation and improving agricultural appliances and improving methods and improving varieties of products all tend to the reduction of agricultural rents, they at the same time make enormously for the growth of urban rents. The land rent problem is not a problem of diminishing importance, but of enormously increasing importance—all on the urban side. The assessed value of the real estate on Manhattan Island exceeds the assessed value of all property in the United States, real and personal, urban and rural, west of the Mississippi River, inclusive of Minnesota and Louisiana.

Nor am I trying to indite any sort of socialistic screed, but simply to point out the significance of the unearned increment in its bearing upon the present distribution of wealth. Were society later to make as great a botch of socialism as it has thus far

made of competition, socialism would present the nightmare of all the ages. I want, for example, to point out, so far as I may, why the wage-earning classes of our cities are finding it increasingly difficult to get meat to eat and why, with the more unskilled of these, the Italians, for example, it is no longer possible for the wife and the wage-earning girls and the children to have any meat at all. And about all that I shall be able to do for the problem anyway is to get it stated and to get its terms into the proper theoretical relation to a really modern and workable concept of capital.

For we are to remember that, side by side with the want of the poor, our average standard of living is rising. We are to remember, also, that we are the richest nation of the world—not merely as measured by the colossal wealth of our very rich; not merely by the flamboyant expenditure and the crass ostentation of our great spenders; not merely, also, by the sheer common-placeness of great personal incomes and great property incomes—but also by the test of an extraordinarily high *per capita* productivity of consumable wealth.

The truth is that no nation of the world out of all the past and no other nation of the present can rank with present America either in opportunities or in accomplishment in wealth production. The average *per capita* product depends in part upon the quality of the human being and in part upon the quality of his environment. As speed in running is partly a matter of the runner and partly of the track, so the productive output is explained partly by the quality of the farmer and partly by the quality of his farm.

All this is merely one application of the great law of correspondence, the interplay between organism and environment. There are only these two ultimate forces in economic history, man and nature. If the Chinese have less *per capita* to consume than the French, it is because the Chinese produce less *per capita*. And the explanation for this must be found in the lower skill or vigor or energy or intelligence or scientific attainments of the Chinese, or in the crowded or otherwise unfavorable character of the habitat. If Americans live better than Europeans, it must be that the Americans are better producers—more active, more inventive, more enterprising—or that the soil and climate and other natural resources of America offer more favorable opportunities.

It is obvious that it is chiefly in intellectual power and intellectual acquirement that the modern man surpasses his progenitors in productive output. If we compare the modern industrial process with the methods of ancient times, we get some notion of the importance of science and art in production. Precisely here was the significance of the agricultural and industrial revolutions. Man has harnessed to his aid the forces of nature; has made levers out of the elemental energies. It is the chemist that grows most corn. Spindle and loom multiply the product by hundreds. Steam and electricity, the printing press, the cotton gin—all the countless inventions which make of every county fair a collection of marvels and of every world's exposition a display of miracles—these are the expression of that civilization into which each of us is born as to a free inheritance—excepting, of course, when even this field of scientific knowledge has been surveyed off into private holdings of patent and royalty. Even the dissemination of knowledge now divides its maximum toll between the paper trust and the type foundry association.

The highest product of modern science is in the industrial technique at the disposal of the modern man as productive agent. As most completely master of this technique, most intelligent in its application, most industrious, most enterprising, and most aggressive in its utilization, the Anglo-Saxon has made himself the leader in the industrial society of the new industrial era.

Consider all that this means for the American branch of the Anglo-Saxon race. Other nations have tediously worked out the problems of progress handicapped by their own inefficiency, under the harsh pressure of the subsistence limit, in environments either niggardly in the beginning or crowded by expanding population and exhausted by improvident use. Out of this long poverty there has finally emerged the modern civilization. And in these last days, equipped with all this racial heritage of technique, vigorous, energetic, and effective beyond all competing races, the Anglo-Saxon is now exploiting the almost inexhaustible wealth of the richest continent in the world—forests ready grown to his hand, limitless expanses of the most fertile land of the world cleared and ready for his plow, silver and gold in unexampled wealth, the main copper resources of the world, iron as dust to be shoveled from the surface of the earth, two thirds of the known coal resources of the world, and all, or nearly all, of the

natural gas and of the petroleum. We actually produce three fourths of the maize of the world, more wheat than any other country, one third of the oats, two thirds of the cotton, one half of the iron, one fourth of the gold, three sevenths of the lead, two fifths of the coal (and, exclusive of the United Kingdom, more than all the rest of the world combined), three fifths of the copper, one third of the zinc, three eighths of the aluminum.

That the fertility of the soil is being seriously depleted, the forests nearing exhaustion, the gas already nearly gone, the coal in prospect of exhaustion in 150 years, and the artesian water beginning to fail, does not matter to the problem. Nor does it concern the present analysis that every great white way in every American city is nightly one more chemical orgy of waste, a crime of competitive advertising, for which some day thousands of human beings must shiver for months. Our enormous production still goes on. It ought to represent itself in a generally high wage level. Instead of this, however, a goodly percentage of our laborers are close to the margin of starvation.

It is, indeed, an extraordinary outburst of productive achievement which we are witnessing—a combination of productive efficiency with favorable opportunity never paralleled in the past history of the race, and never to be duplicated again in all the years of the long future. No new continent is left to be opened. Modern science and virgin opportunity can never again concur.

These different cases of income, iniquitous in origin and productive of innumerable abominations, divide into three classes:

1. Where rent is collected upon a really productive item of property; where, therefore, the only question is as to the right of receipt of the income: capitalized bounty of nature.

2. Cases like franchises, where social productivity is absent but where rent to somebody is inevitable unless portions of the traffic are deliberately made unprofitable. No competitive extension of the traffic is practicable to cancel the rent: capitalized privilege.

3. Cases where profits express not merely the lack of social productivity, but an interference with social productivity by restriction of product or deterioration of product. These are not cases of a bad distribution of a social product, but of in-

comes dependent directly upon the degree in which social productivity is prevented: capitalized predation.

The single-taxer is thus fundamentally right in his declaration that public revenues should be derived so far as is possible from the social estates—from incomes not due to individual effort in the production of social service. Any system of taxation, no matter how scientific, is yet bad which has not first exhausted these sources of income before taxing any other.

But our present system is bad even without reference to this limitation. So far from taxing unjustifiable incomes equally with the justifiable, it places most of the burden upon the justifiable and exempts the unjustifiable. The difficulty is, then, not merely that 15 billion dollars worth of agricultural land has become private property, on which the millions of disinherited must pay rent and by virtue of which they become trespassers in the land of their birth; not merely, also, that untold millions of dollars in urban sites are now the source of landlord income; not merely that the coal mines belong to the coal barons, the copper to the senators, and the gold and silver mines to the other rich, the water powers to the syndicates; not merely that all sorts of franchises have fallen into private ownership, appropriating gains that should be social, and at the same time imposing monopolistic exactions,—but also that our tax system is directly adapted to aggravate all of these evils. In the main the revenues are collected upon the consumption of the incomes of those very classes that have been already grossly exploited in the distribution of that income. The poor are plundered as producers by monopolistic restrictions on production, and then are plundered again as consumers through consumption taxes upon that which has been produced. Wages that are inadequate at the best buy still less through the consumption taxes to which these wages are subjected. If, in truth, then, we either can not or will not disturb the vested rights already accrued in land wealth, and if we will not appropriate or cancel the franchise rents, and if we will not or dare not burden, by progressive taxation of some sort, the exercise of exploitation and the collection of tribute—if, that is to say, we have turned over even the tax function to private ownership—we might at least experiment awhile with serious inheritance taxes.

I should like after all to give to this discussion its essential theoretical significance. We economists have not rightly analyzed the notion of capital. We have failed to see that some of the capital is as iniquituous as other of the capital is beneficent. Noting that some of it is good, we have inferred that all of it is good. By our bad analysis, in our blindness to the distinction between social productivity and private productivity, between that which ethically is production and that which ethically is predation, we have stood as defenders of all.

And blind to this same distinction, we have advised, wherever finally we have become conscious that iniquity has been capitalized, that this sort of capital be subjected to no greater rates of burden than apply to the righteous sorts of capital. To the extent that we favor the general property tax at all, we favor taxing all private property at one rate. We shall, possibly, some day come to see that capital in a competitive society is merely a legal category of private property, and that private property may extend to everything that is permitted legally to render income to the owner of it. There needs, it seems, that some theoretical muckraking be done. The ostrich method of curing ills is foredoomed to failure.